

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0775-05
Bill No.: HCS for SS for SB 193 with CCA 1
Subject: Insurance - General; Insurance Department; Licenses - Professional
Type: Original
Date: May 13, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Insurance Dedicated	\$0	(\$40,750)	\$58,500
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$40,750)	\$58,500

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance (INS)** state there would be a revenue loss due to single producer licenses: There are currently 4,200 dual agent/broker licensees who pay \$125 biennially for an agent and a broker license (\$25 agent and \$100 broker). These individuals would now have a single license at a cost of \$100 biennially. Lost revenue is estimated at \$52,500 (4200 x \$25 divided by 2) annually. There are approximately 3,000 brokers with no change. License fee revenue remains the same for 9,900 agencies. Due to full reciprocity, certification and clearance fees from non-resident producers would result in a loss of \$425,000 annually. Late fees would be capped at \$25 per month for 12 months. Currently they are calculated at \$25 per month with no cap. Estimated loss of revenue is 1/3 of average annual late fees collected or \$56,000 annually. Continuing education filing fee has been eliminated at a loss in revenue of \$363,000 annually. Appointment and termination fees have been eliminated at a loss of revenue of \$1,820,000 annually. Total annual loss of revenue is estimated at \$2,716,500 from Insurance Dedicated Fund. INS estimates a revenue gain due to single producer licenses: There are currently 86,000 licensed producers (4,200 have dual agent/broker licenses, 3,000 have broker licenses, 9,900 have agency licenses and 69,000 have agent licenses. With adding new agents each year, department estimates revenue gain would be \$75 per license on 37,000 agents per year or \$2,775,000. The department would require contract programming cost of \$70,000 to modify the licensing system to go from multiple licenses to a single producer license.

INS states that in 1997 examination fees exceeding tax liability was \$2,014,964 and was \$1,843,054 for 1998. Using this information, INS estimates that \$1,929,009 in examination fees would be carried forward each year split between General Revenue Fund and County Foreign Insurance Fund beginning with taxes filed 3/2004. Carry forward would impact revenues in 2005. The department would need to re-write the premium tax credit sub-system using a relational database to allow for accounting of the tax credits and carryover from year to year. This would require approximately 760 hours of contract computer programming at \$125 per hour to implement. This would be a one-time cost of \$95,000 to the Insurance Dedicated fund during FY2005.

FISCAL IMPACT - State Government

FY 2002
(6 Mo.)

FY 2003

FY 2004

INSURANCE DEDICATED FUND

Income - Department of Insurance

Licensing fees	\$0	\$29,250	\$58,500
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<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<u>Cost - Department of Insurance</u>			
Programming costs	<u>\$0</u>	<u>(\$70,000)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$0</u>	<u>(\$40,750)</u>	<u>\$58,500</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2002 (6 Mo.)	 FY 2003	 FY 2004
	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses would expect to be fiscally impacted to the extent they may incur additional licensing fees and administrative costs as a result of the requirements of this proposal.

DESCRIPTION

This proposal would revise the law governing the licensing of insurance agents and brokers. The proposal would remove distinctions between agents and brokers in terms of licensing, referring to each as "insurance producers". The proposal would revise most of the provisions pertaining to licensure including: the courses of study initially required for licensure, continuing education, temporary licensure, the termination and renewal of agency contracts, examination requirements, broker compensation restrictions, suspension and revocation of licenses, penalties for violations, closed and confidential records, and fees for licensure. This proposal is modeled after the Producer Licensing Model Act promulgated by the National Association of Insurance Companies. Under this proposal, unless rejected by the General Assembly by April 1, 2003, for all tax years beginning on or after January 1, 2003, refunding any amount deducted for examination fees which exceeds an insurance company's or association's premium tax liability would be prohibited. This proposal, however, would allow insurers to carryover the examination fee deduction to future tax years until the full deduction is claimed. The deduction may not be carried forward more than 5 years. The deduction would be credited entirely against the general revenue fund and would not cause a reduction of revenue to the county foreign insurance fund.

This proposal would allow the Director of Insurance to issue a surplus lines license to any holder of a current resident or nonresident property and casualty license. Current law is limited to a

DESCRIPTION (continued)

resident holder of a property and casualty license. This proposal would require the surplus line broker to file a bond in the amount of \$100,000 or in an amount equal to the sum of the tax liability of the previous year, whichever is smaller. This proposal would require all disciplinary action records against an insurance producer which result less in a voluntary forfeiture of \$200 or less would be expunged after five years.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance

A handwritten signature in black ink, appearing to read "Jeanne Jarrett", with a stylized, cursive script.

Jeanne Jarrett, CPA
Director

May 13, 2001